SaskPower International

Annual Report

December 31, 2002

103-04267/

Report of Management

The consolidated financial statements of SaskPower International Inc. are the responsibility of management and have been prepared in accordance with Canadian generally accepted accounting principles, applied on a basis consistent with that of the preceding year. The preparation of consolidated financial statements necessarily involves the use of estimates, which have been made using management's best judgement. In management's opinion, the consolidated financial statements have been properly prepared within the framework of selected accounting policies summarized in the consolidated financial statements and incorporate, within reasonable limits of materiality, information available up to February 5, 2003.

Management maintains appropriate systems of internal control, including corporate-wide policies and procedures, which provide reasonable assurance that the Corporation's assets are safeguarded and that financial records are relevant and reliable. An internal audit function independently evaluates the effectiveness of these controls on an on-going basis and reports its findings to management and the Audit and Finance Committee.

The consolidated financial statements have been examined by Deloitte & Touche LLP, Chartered Accountants. The external auditors' responsibility is to express a professional opinion on the fairness of management's consolidated financial statements. The Auditor's Report, which follows, outlines the scope of their examination and sets forth their opinion.

The Board of Directors, through the Audit and Finance Committee, is responsible for ensuring that management fulfills its responsibility for financial reporting and internal control. The Audit and Finance Committee consists of outside directors and at regular meetings reviews audit, internal control, and financial reporting matters with management, the internal auditors and the external auditors to satisfy itself that each is properly discharging its responsibilities. The consolidated financial statements, and the external auditor's report have been reviewed by the Audit and Finance Committee and have been approved by the Board of Directors. The internal and external auditors have full and open access to the Audit and Finance Committee, with and without the presence of management.

On behalf of Management.

David Hughes
President and Chief Executive Officer
February 5, 2003

Debbie Kajati
Manager, Finance & Administrative Services

Auditors' Report

To the Members of the Legislative Assembly
of Saskatchewan

We have audited the consolidated statement of financial position of SaskPower International Inc. as at December 31, 2002 and the consolidated statements of loss and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2002 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Regina, Saskatchewan
February 5, 2003

SASKPOWER INTERNATIONAL INC.
Consolidated Statement of Loss and Deficit
(in thousands)
For the year ended December 31, 2002

	2002	2001
REVENUE		
Flyash sales	**$2,423**	$2,176
Consulting and contract services	**694**	665
Interest	**73**	653
Other	**1**	103
TOTAL REVENUE	**3,191**	3,597
EXPENSE		
Cost of goods sold	**2,131**	1,929
Operating, maintenance & administration	**1,307**	1,289
Saskatchewan Capital Tax	**760**	677
TOTAL EXPENSE	**4,198**	3,895
NET LOSS	**1,007**	298
DEFICIT, beginning of year	**3,940**	3,642
DEFICIT, end of year	**$4,947**	$3,940

See accompanying notes

SASKPOWER INTERNATIONAL INC.
Consolidated Statement of Financial Position
(in thousands)
As At December 31, 2002

	2002	2001
ASSETS		
CURRENT ASSETS		
Cash (Note 10)	$ 5,142	$ 33,606
Accounts receivable	607	551
Other	71	19
	5,820	34,176
PROPERTY, PLANT AND EQUIPMENT (Note 3)	127,769	76,574
DEFERRED FINANCING CHARGES	2,218	2,127
LONG-TERM INVESTMENT (Note 4)	21,936	14,155
TOTAL ASSETS	$157,743	$127,032
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 6,733	$ 10,276
Other current liabilities (Note 5)	704	-
Current portion of non-recourse long-term debt	1,162	-
	8,599	10,276
NON-RECOURSE LONG-TERM DEBT (Note 6)	95,838	91,000
TOTAL LIABILITIES	104,437	101,276
EQUITY		
Share capital (Note 7)	58,253	29,696
Deficit	(4,947)	(3,940)
TOTAL EQUITY	53,306	25,756
TOTAL LIABILITIES AND EQUITY	$157,743	$127,032

See accompanying notes

David T. Barnard, David T. Barnard, Chairman of the Board

V. Lynne Pearson, V. Lynne Pearson, Director

SASKPOWER INTERNATIONAL INC.
Consolidated Statement of Cash Flows
(in thousands)
For the year ended December 31, 2002

	2002	2001
OPERATING ACTIVITIES		
Net loss	**$ (1,007)**	$ (298)
Net change in non-cash working capital (Note 8)	**110**	112
CASH USED IN OPERATING ACTIVITIES	**(897)**	(186)
INVESTING ACTIVITIES		
Additions to property, plant and equipment	**(51,195)**	(61,108)
Net change in non-cash working capital (Note 8)	**(3,761)**	8,164
Increase in long-term investment	**(7,077)**	(14,155)
CASH USED IN INVESTING ACTIVITIES	**(62,033)**	(67,099)
FINANCING ACTIVITIES		
Issue of common shares (Note 7)	**28,557**	10,720
Issue of non-recourse long-term debt	**6,000**	91,000
Issue costs of non-recourse long-term debt	**(91)**	(2,102)
CASH PROVIDED BY FINANCING ACTIVITIES	**34,466**	99,618
INCREASE (DECREASE) IN CASH	**(28,464)**	32,333
CASH, beginning of year	**33,606**	1,273
CASH, end of year	**$ 5,142**	$ 33,606
Supplemental disclosure of cash flow information		
Cash interest paid	**$ 6,590**	$ 3,598
Cash taxes paid	**1,288**	67

See accompanying notes

1. STATUS OF THE CORPORATION

SaskPower International Inc. (the "Corporation") was incorporated pursuant to the *Business Corporations Act (Saskatchewan)* effective September 15, 1994 and was registered in the Province of Alberta on September 10, 1999. The Corporation is a wholly owned subsidiary of Saskatchewan Power Corporation ("SaskPower").

The financial results of the Corporation are included in the consolidated financial statements of SaskPower. The Corporation contributes to the long-term success of SaskPower by diversifying its revenue and asset base and achieving a return on investment capital by investing in power projects, marketing SaskPower's expertise and selling flyash.

As a subsidiary of a Crown corporation, the Corporation is not subject to federal income tax, provincial income tax, or federal large corporations tax.

2. ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The timely preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Actual results could differ from those estimates.

The following policies are considered to be significant:

a) Joint Ventures

The Corporation accounts for its joint venture interests using the proportionate consolidation method.

b) Long-term Investments

The Corporation accounts for investments over which it exerts significant influence using the equity method. The investment is initially recorded at cost and the carrying value adjusted thereafter to include the Corporation's pro-rata share of post acquisition earnings of the investment.

c) Foreign Currency Translation

Transactions denominated in a currency other than Canadian dollars are translated to Canadian dollars by applying exchange rates in effect at the transaction date. Monetary assets and liabilities denominated in a foreign currency are translated using the exchange rate prevailing at the year-end date. Any resulting foreign currency translation gains and losses are included in the statement of loss and deficit in the current period.

d) Property, Plant and Equipment

Construction in progress is recorded at cost and includes materials, direct labour and allocated overhead costs. Capital expenditures include capitalized interest incurred during construction.

Depreciation is calculated on a straight-line basis over the estimated service life of the related asset, beginning once the assets are placed into commercial operations.

e) Deferred Financing Charges

Issue costs of non-recourse long-term debt are amortized on a straight line basis over the term of the debt.

f) Revenue Recognition

The Corporation uses the percentage of completion method for long-term consulting and contract services. Other consulting and contract services are recognized when services are rendered. Flyash sales revenue is recognized on delivery.

g) Employees' Future Benefits

The Corporation provides pension plans for nearly all employees, including a defined contribution pension plan and a defined benefit pension plan. In accordance with the terms of the defined contribution pension plan, the Corporation's contributions are limited to matching the contributions made by employees for current service. When made, these contributions are charged to income. Defined benefit pension plan benefits are provided by SaskPower to eligible employees.

The Corporation provides defined benefit severance plans for substantially all employees. The Corporation's obligations are limited to making regular contributions to SaskPower in respect of severance plan benefits.

The Corporation provides a supplementary superannuation plan for certain management employees who elect to forego their entitlement to banked days off. The Corporation's obligation is limited to yearly notional contributions to the plan based upon the employee's salary and an amount for interest on the employee's plan balance.

3. PROPERTY, PLANT AND EQUIPMENT (in thousands)

	2002	2001
Construction in progress	$ 127,767	$ 76,574
Other	2	-
Total	$ 127,769	$ 76,574

Construction in progress pertains to the construction of the Cory Cogeneration Station in which the Corporation has a 50% interest. The cogeneration plant commenced commercial operations January 2003. To date, interest costs capitalized are $10,400 ($3,598 in 2001).

4. LONG-TERM INVESTMENT (in thousands)

In 2001, the Corporation acquired an ownership interest in the MRM Cogeneration Station. The 170-megawatt natural gas-fired cogeneration plant is located at the Athabasca Oil Sands Project's Muskeg River Mine, north of Fort McMurray, Alberta. The cogeneration plant commenced commercial operations January 2003.

Ownership interests in the MRM Cogeneration Station are as follows:

ATCO Power Canada Ltd.	56%
SaskPower International Inc.	30%
ATCO Resources Ltd.	14%

The investment to date is $21,936 ($14,155 in 2001).

5. OTHER CURRENT LIABILITIES (in thousands)

	2002	2001
Due to ATCO Power Canada Ltd., repayable within 180 days at prime rate plus a margin of 2%	**$ 704**	$ -
	$ 704	$ -

6. NON-RECOURSE LONG-TERM DEBT (in thousands)

Debentures payable are based on the following terms and rates:

Non-recourse	2002	2001
Notes at 7.586%, repayable in quarterly payments commencing on June 30, 2003 and ending March 31, 2025.	**$48,500**	$48,500
Notes at 7.601%, repayable in quarterly payments commencing on September 30, 2004 and ending June 30, 2026.	**42,500**	42,500
Term loan based on Banker's Acceptance rates plus a margin of 1.125%, repayable in quarterly payments commencing on June 30, 2003 and ending March 31 2011	**6,000**	-
	$97,000	$91,000
Less current portion	**1,162**	-
	$95,838	$91,000

These debentures are issued in the name of Cory Cogeneration Funding Corporation. In 2001, debentures in the amount of $91 million were issued. In 2002, the Cost Overrun Facility was fully drawn up to the value of $6 million. In addition, $5 million is available under an Operating Facility.

The notes and term loan are secured by a debenture on each Owners' ownership interest in the Project's assets, an assignment of the Project's bank accounts and an assignment of all the Project Agreements.

6. NON-RECOURSE LONG-TERM DEBT (in thousands) (continued)

Interest rate swaps

Effective March 31, 2003, a floating to fixed rate swap will be used to reduce interest rate exposure on the cost overrun facility and is carried at nil book value as follows:

		Interest Rate	
		Fixed	Floating
Maturity	Principal	Paid	Received
March 31, 2011	$6,000	5.325%	90 day BA

The fair value of the swap at December 31 was $246 (nil in 2001). The fair value of the swap has been estimated using year end market rates.

Maturities

The minimum annual debt repayments for each of the next five years are as follows:

	2003	2004	2005	2006	2007
Debentures	$ 1,162	$ 2,020	$ 2,600	$ 2,900	$ 3,200

7. EQUITY (in thousands)

	#	2002	2001
Authorized			
Unlimited Class A non-cumulative, voting common shares			
Issued			
Class A			
Issued and outstanding, beginning of the year	29,696	$ **29,696**	$ 18,976
Issued during the year for cash	28,557	$ **28,557**	$ 10,720
Issued and outstanding, end of year	58,253	$ **58,253**	$ 29,696

All shares are held by the parent corporation, SaskPower.

8. NET CHANGE IN NON-CASH WORKING CAPITAL (in thousands)

Operating Activities

	2002	2001
Accounts receivable	$ (450)	$ (280)
Other current assets	(10)	6
Accounts payable and accrued liabilities	570	386
	$ 110	$ 112

Investing Activities

	2002	2001
Accounts receivable	$ 394	$ -
Other current assets	(42)	-
Accounts payable and accrued liabilities	(4,113)	8,164
	$ (3,761)	$ 8,164

9. FINANCIAL INSTRUMENTS (in thousands)

The fair value of the Corporation's financial instruments reflect market estimates of the notional amount that the Corporation would pay if the Corporation were to refinance contracts at the end of the year. They are not a result of market transactions. Changes in assumptions, economic conditions and other factors could cause significant changes in the fair value estimates. The following summarizes the fair value of the Corporation's financial instruments at year-end.

As at December 31	2002		2001	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Non-recourse long-term debt	**$ 97,000**	**$ 100,769**	$ 91,000	$ 90,948

Fair values are determined on year-end market prices for similar instruments.

The carrying values of all other financial instruments including cash accounts receivable, accounts payable, accrued liabilities, and other liabilities approximate fair value due to the short period to maturity.

10. JOINT VENTURES (in thousands)

(a) In 2000, the Corporation entered into agreements for a 50% interest in an unincorporated joint venture with ATCO Power Canada Ltd. to construct a 228-megawatt natural gas-fired cogeneration plant (the "Cory Cogeneration Station") near Saskatoon, Saskatchewan.

(b) The Corporation holds a 50% interest in Cory Cogeneration Funding Corporation ("CCFC"). CCFC was incorporated pursuant to the *Business Corporations Act (Saskatchewan)* effective November 19, 1999 and was registered with the Province of Alberta on December 18, 2000.

CCFC is a special purpose company established by the Corporation and ATCO Power Canada Ltd. (the Owners) to borrow long-term, non-recourse debt to finance the Cory Cogeneration Station. CCFC will act as agents for the Owners, receiving revenues, disbursing costs, including debt service and distributing proceeds to the Owners.

(c) The Corporation holds a 14% interest in Canadian Power Consultants ("CPC"). CPC was formed in 2002, with AMEC E&C Services Limited and Acres International Limited, for the purpose of providing services under a consulting contract with Canadian International Development Agency ("CIDA").

(d) The Corporation's interest in joint ventures for 2002 is summarized below:

	2002	2001
Statement of earnings		
Revenue	$ 63	$ -
Cost of goods sold	(59)	-
Earnings from joint ventures	$ 4	$ -
Balance sheet		
Current assets	$ 4,454	$ 21,644
Current liabilities	(6,122)	(9,038)
Construction in progress	127,767	76,574
Deferred financing costs	2,218	2,127
Non recourse long-term debt	(95,838)	(91,000)
Investment in joint ventures	$ 32,479	$ 307
Statement of cash flows		
Operating activities	$ 9	$ -
Investing activities	(54,956)	(53,151)
Financing activities	38,081	73,613
Increase (decrease) in cash position	$ (16,866)	$ 20,462

Current assets include cash of $4,572 ($21,439 in 2001), which is only available for use within the joint ventures.

11. RELATED PARTY TRANSACTIONS (in thousands)

Included in these financial statements are transactions with joint ventures and various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as "related parties").

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. These transactions and amounts outstanding at year-end are as follows:

	2002	2001
Accounts receivable and unbilled revenue	$ 4	$ 47
Accounts payable and accrued liabilities	739	470
Revenue - flyash sales	-	51
Revenue - consulting and contract services	508	390
Revenue - other	-	102
Expenses - cost of goods sold	1,324	1,069
Expenses - administration	162	162

SaskPower provides certain management services to the Corporation for no consideration.

12. EMPLOYEES' FUTURE BENEFITS (in thousands)

Included in these financial statements is $68 ($64 in 2001) relating to pension expense.

13. COMMITMENTS (in thousands)

As at December 31, 2002, the Corporation had agreed to expenditures of $7,800 ($38,690 in 2001) for construction materials, equipment and contracts and services not completed at that time in respect of the Cory Cogeneration Station. The plant commenced commercial operations in January 2003.

The Corporation has provided a $45 letter of credit to support its obligations under the contract with CIDA through its joint venture Canadian Power Consultants.

14. COMPARATIVE FIGURES

Certain amounts for the prior year have been reclassified to conform with current year financial statement presentation.